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1967



annual report

BRITISH COLUMBIA TELEPHONE COMPANY





76th ANNUAL REPORT

BRITISH COLUMBIA TELEPHONE COMPANY

*Incorporated by Special Act of the
Parliament of Canada, April 12, 1916*

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TRANSFER AGENT AND REGISTRAR
Montreal Trust Company

HEAD OFFICE

768 Seymour Street, Vancouver 2,
British Columbia, Canada

If you own more than one type of British Columbia Telephone Company capital stock, you may receive more than one copy of this Report. This is because it is more economical to mail a few duplicates than to maintain an elaborate cross-reference checking system.

Inside front cover: Zymoetz repeater station, east of Terrace, is part of newest section of Prince George-to-Prince Rupert microwave radio system.

THE REPORT AT A GLANCE

FINANCIAL	1967	1966
Operating revenues.....	\$126,827,916	\$116,540,371
Operating expenses.....	\$ 85,725,496	\$ 78,027,595
Income available for fixed charges.....	\$ 28,534,854	\$ 25,207,467
Average invested capital.....	\$430,218,641	\$365,735,694*
Return on average invested capital.....	6.63%	6.61%*
Net income available for ordinary shares.....	\$ 11,617,610	\$ 11,144,318*
Earnings per average ordinary share.....	\$ 4.49	\$ 4.30
Dividends per ordinary share.....	\$ 2.55	\$ 2.40
Equity per ordinary share.....	\$ 48.15	\$ 46.22
Gross plant additions.....	\$ 68,430,995	\$ 60,681,708*
OTHER		
Telephones in service.....	855,657	800,388
Telephone gain for the year.....	55,269	54,292
Average ordinary shares outstanding.....	2,589,300	2,589,300

*These figures relate only to British Columbia Telephone Company since the common shares of Okanagan Telephone Company were not acquired until December 15, 1966. The other 1966 figures have been restated to include the results of the subsidiary's operations for purposes of comparison with the 1967 consolidated figures.



THE PRESIDENT'S LETTER

1967 was a year of achievement for the Company. Earnings were increased and the largest annual capital expansion program in our history was carried out.

These results came at a time when a levelling off became apparent in some segments of the national and provincial economies following several years of extremely high growth conditions. This levelling off was reflected particularly in toll traffic, with the result that the rate of growth of total revenues, while continuing healthy, was below that of 1966.

Ordinary share earnings increased to \$4.49 per share from \$4.30 in 1966 and part of this increase in earnings reflects our acquisition of common shares of Okanagan Telephone Company in December 1966. Rate of return on capital employed in the consolidated operations of the Company and its subsidiary was 6.63%, compared with 6.61% in 1966.

These and other 1967 achievements were made possible by several factors, among them the efforts of our employees, the thoughtful planning and hard work done in years past, and the continued careful control of expenditures to assure that our resources are applied efficiently and effectively.

We were able during the year to increase the rate of dividend payment on ordinary shares and, with others in the Trans-Canada Telephone System, to reduce certain long distance rates to bring savings to our customers.

Early in the year we marketed an issue of first mortgage bonds on terms more favorable than those

of our 1966 issue. Additional funds were made available from internal sources as a result of the rescinding by the Federal Government of a 1958 Order-in-Council which had removed deferred income taxes from those expenses permitted for rate-making purposes. These additional funds were used in the Company's expansion program.

By the year end, our Company's holding in the Okanagan Telephone Company had been increased to 99.6% of the common stock. Returns from this holding are reflected in the accompanying financial statements.

We marked milestones in growth and service improvement during 1967, connecting the 800,000th telephone to the B.C. Telephone Company's system in October, and completing exchange conversions which pushed to beyond 99% the portion of our telephones now with dial service. Through the combined facilities of our Company and our Okanagan subsidiary, we now serve more than 855,000 telephones in British Columbia.

Throughout 1967 we have reinforced the foundations for our Company's future success as a responsible investor-owned utility. In 1968, we look to continued solid growth as we expand in orderly and economic fashion to meet British Columbia's total communications requirements.

A handwritten signature in blue ink, appearing to read "R. E. Anderson".

Vancouver, B.C.,
February 15, 1968.

REPORT OF DIRECTORS



Northern Division telephone men took to snowshoes to place cable in Burns Lake, where dial conversion was completed in 1967.

OUR EXPANSION STORY

The 1967 expansion program was designed with two basic objectives: to meet the immediate requirements for telephone communication services throughout British Columbia, and to reinforce the capacity of our facilities which were heavily taxed by several years of unprecedented growth in the province we serve.

These objectives were met by our employees through carefully-controlled application of a record-breaking \$68,430,995 in capital expenditures. More than 75% of our total capital outlay went into facilities for growth in both exchange and toll services, with the balance applied to the replacement of existing installations and to bring about service improvements.

A late-year upsurge in customer demand for local service resulted in a net gain of 55,269 in the number of telephones connected to our system and that of

our Okanagan subsidiary. This brought the total of telephones in service at year end to 855,657. The comparative gain in 1966 was 54,292 telephones.

In meeting expansion and improvement objectives, we completed nine new dial offices, converted seven others from manual to dial service, added switching capacity to 120 existing automatic offices, enlarged outside distribution plant in every exchange area, and began additions to 12 central office buildings in preparation for future equipment installations.

The capacity of the long distance network also was increased as we made additions to more than half of our toll transmission systems, completed several new systems, including three major microwave radio relay installations, and began construction of others scheduled for completion in the year ahead.

The portion of our telephones with Direct Distance Dialing service was increased to more than 76%. In

addition, installations were undertaken to bring direct customer dialing of long distance calls to more than 90,000 telephones on Vancouver Island and in the province's northwest during 1968.

Twelve new public service radiotelephone terminals were installed to meet growing requirements for mobile, fixed-location and ship-to-shore telephone communications.

Forty-eight per cent of our total capital budget went into expansion and improvement of local service facilities in 1967, with an additional 28% devoted to purchase and connection of customer equipment. The balance went toward enlarged and improved toll transmission installations.

Capital spending and station gain by operating divisions is shown in the following table:

	TELEPHONES IN SERVICE			Capital Expenditures 1967 (000's)
	December 31, 1967	Increase 1967	%	
Coastal	521,587	32,256	6.6	\$34,510
Island	161,797	9,925	6.5	11,763
Interior	75,672	4,546	6.4	9,038
Northern	54,007	5,207	10.7	10,093
Totals	813,063	51,934	6.8	\$65,404
Okanagan	42,594	3,335	8.5	3,027
Totals	855,657	55,269	6.9	\$68,431

These figures reflect general economic patterns of the province with the rate of increase in the number of telephones during 1967 about level with that of 1966 in the Coastal and Island Divisions, slightly higher in the Okanagan Telephone Company's territory, and below 1966 levels in the Interior and Northern Divisions covering the province's central and northern regions where a very high growth rate has been experienced in recent years.

COASTAL DIVISION

Among the highlights of the year's expansion in the Coastal Division was completion of installations to

give customers in White Rock, 20 miles south of Vancouver, flat-rate calling with Vancouver and several surrounding communities.

The Coastal Division covers the Lower Mainland and Fraser Valley areas, the most populous regions of British Columbia, and much of the capital outlay there went into expansion of exchange office and cable distribution facilities. Major switching equipment additions were made to most of the offices in the Greater Vancouver area, where at the same time more than \$3,000,000 was spent for underground cable and conduit installations.

Twenty-four new operator positions were put into service in the Vancouver toll center as part of a \$2,000,000 expenditure to increase long distance facilities there. An equal number of new information operator positions were added in Vancouver.

The capacities of several transmission systems in the Division were increased to provide for growing volumes of voice, data and other long distance traffic. These systems serve communities in the Fraser Valley and link the Lower Mainland's toll hub in Vancouver with Vancouver Island and the province's interior and north. New circuits also were added to links with Alberta and the United States.

At Haney, in the Fraser Valley, construction was begun on a major electronic switching center for national defence communications.

ISLAND DIVISION

Two major microwave radio relay systems, one linking Victoria with Vancouver and the other linking Vancouver with Angeles Point in the State of Washington, were completed during the year in the Island Division's expansion program. These provide additional long distance transmission circuits and diversification in traffic routing.

In addition, two radio systems serving the more remote areas of Vancouver Island were begun. One will link the north-island communities of Port Alice

and Port Hardy. The other is being constructed from Nanaimo through Port Alberni to Tofino and Ucluelet to increase and improve existing links with the Island's west coast.

The latter system will bolster facilities carrying, among other traffic, transmissions from Sedco 135F, Shell Canada Limited's 17,500-ton offshore drilling rig which began during the year to search for petroleum resources in the Pacific floor off Vancouver Island's west coast. A radio antenna installed at Tofino connects the rig with voice and data transmission circuits to shore.

Installations for introduction of Direct Distance Dialing to Victoria customers continued in 1967, but the projected in-service date of December was pushed back six months by equipment delivery delays.

The Island Division also completed a submarine cable installation between Campbell River and Quadra Island and added cable carrier equipment to increase the capacity of the submarine cable between Victoria and Ganges. Nearly \$1,000,000 was spent on underground cable and conduit placements, and construction was started on a major new central office to serve parts of Victoria and the neighboring community of Oak Bay.

INTERIOR DIVISION

Highlight of the expansion program in our Interior Division was completion in May of Direct Distance Dialing installations in the Kamloops District. This program enabled us to provide for direct customer dialing of long distance calls from 30,000 telephones in 24 communities, among them Kamloops, Celista, Vavenby, Merritt and Sorrento.

New dial offices were completed in North Nelson, Westsyde, Avola, 70-Mile House and Skookumchuck and conversion programs to replace manual systems with automatic service were carried out in Lillooet and Shalalth. At year end, fewer than 1,600 of the Interior Division's 75,000 telephones remained on

manual service and 75 of its 78 offices were automatic.

The longest single cable-burying project ever carried out by the Company was completed between Salmon Arm and Revelstoke. Sixty-six miles of telephone cable was plowed into the shoulder of the highway. The installation will provide increased long distance facilities to the Revelstoke area where construction of the multi-million-dollar Mica Creek hydroelectric project is spurring growth.

The Interior Division also completed a major microwave radio link between Cranbrook and Salmo in the southeastern section of the province and installed a 13,000-foot submarine cable across Kootenay Lake to improve service to the Proctor area.

NORTHERN DIVISION

Completion of a major mountain-hopping microwave radio relay system in the Terrace area and of the extensive Burns Lake region dial conversion program were the most significant developments of 1967 in the Northern Division.

When the first commercial telephone traffic began moving in October across the heavy-route microwave radio system from Terrace east to Houston through 90 miles of the rugged Coast Mountain range, the last gap was closed in the 500-mile microwave radio network between Prince Rupert and Prince George. This step brought a substantial increase in the traffic capacity for present and future long distance telephone links leading into and out of the northwest region in which Prince Rupert, Terrace and Kitimat are the major centers.

Farther east in the Division, the program to convert the Burns Lake area to dial service was completed in November with the placing in service of automatic offices at Burns Lake, Decker Lake and Francois Lake. New automatic offices in neighboring Grassy Plains and Topley had been placed in service earlier.

Northern Division also enlarged the portable office at Hudson's Hope and installed new automatic offices

in Red Rock, Kemano, Tasu and Mackenzie. The latter two are brand new communities serving a mining development in the Queen Charlotte Islands and a forestry project north of Prince George, respectively.

Installations at Port Clements in the Queen Charlotte Islands and at Stewart at the head of the Portland Canal north of Prince Rupert were prepared for introduction of dial service early in 1968.

At Kitimat, where local service is provided through the largest remaining manual office in our system, a building addition was undertaken to provide room for switching equipment that will bring dial service to 3,500 telephones late this year.

Construction was begun at Terrace on a new building which by the end of 1968 is to house the bulk of toll equipment through which telephone traffic for the region is funnelled. The Terrace project will lead to introduction of Direct Distance Dialing service for customers in nearly a dozen communities in the province's north coast and west-central interior, with the first of these to get this service by the year end.

OKANAGAN TELEPHONE COMPANY

Our subsidiary, the Okanagan Telephone Company, carried out a \$3,027,000 construction program during 1967 and by the end of the year had 42,594 telephones connected, representing an increase of 3,335 during 1967.

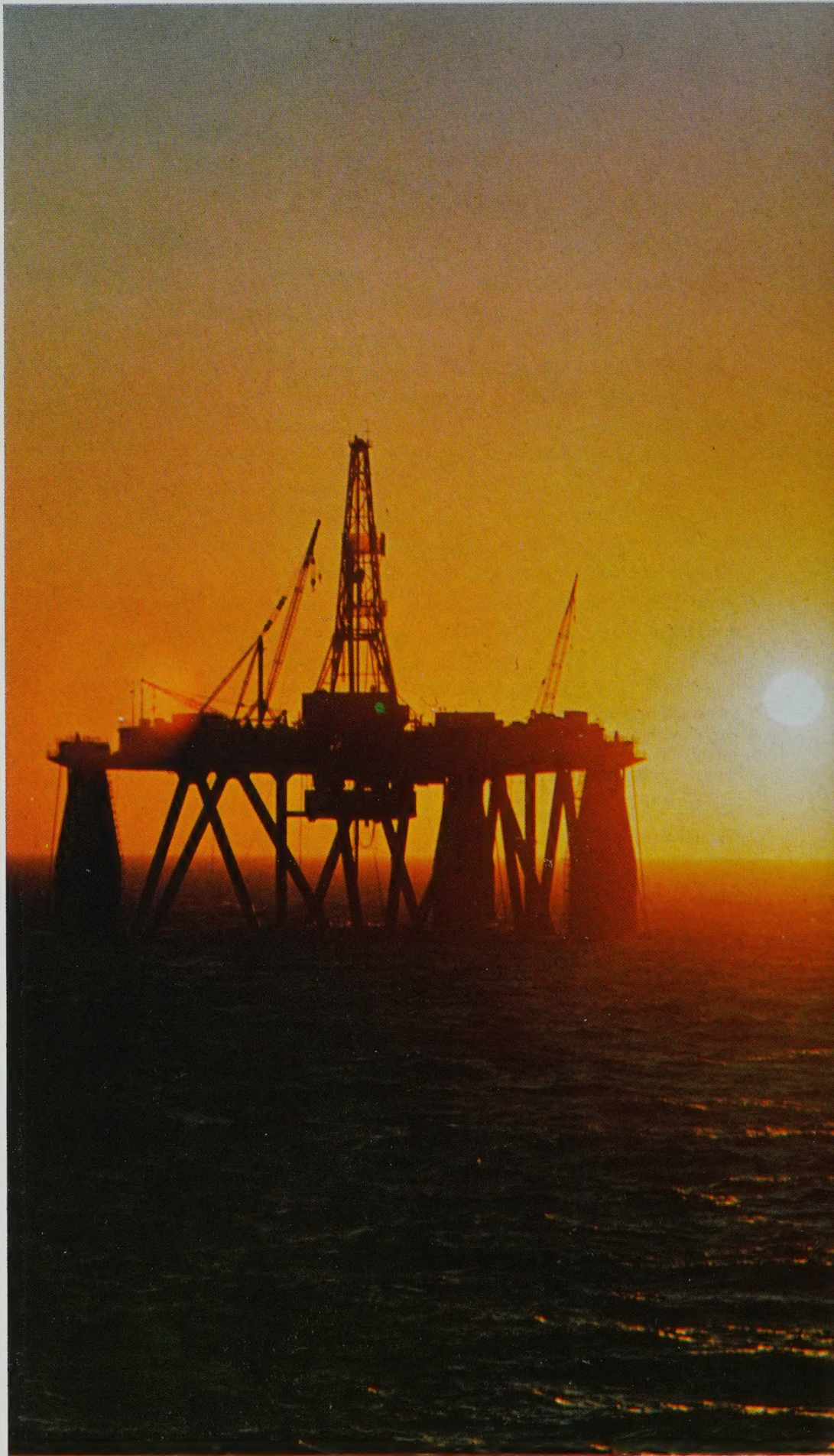
The construction program included additions to outside plant in nearly all 20 central office areas and to switching equipment installations to expand capacity of 15 of those offices. Switching equipment additions in Kelowna, Penticton and Vernon involved total spending of more than \$800,000.

Central office equipment and cable installations to service the Revelstoke area and the new Mica Creek community created to service the hydro-electric project there involved investment of \$360,000.



Top: When dial conversion at Burns Lake was completed, telephone employees pulled blocking tools from switching equipment to bring office into service. Bottom: New portable dial office installed by Coastal Division on Bowen Island made part of its trip from Burnaby assembly plant aboard ferry.





Radio transmission facilities provide voice and data communication to 17,000-ton Sedco, giant offshore drilling rig seeking petroleum riches off Vancouver Island's west coast.



Top: Signals beamed from this Richmond radio transmitter serve increasing numbers of ship-to-shore, mobile and fixed-station radiotelephone customers.



Bottom: Special plow was used to bury 66 miles of long distance telephone cable between Salmon Arm and Revelstoke in Company's longest cable plowing project.



Tramway, 10,300 feet long, carries microwave technicians to major Trans-Canada System microwave repeater site atop Dog Mountain, near Hope.



Top: McLean Mountain microwave site forms part of Prince Rupert-to-Terrace transmission system in rugged north-central coastal region of B.C.

Bottom: Telephone men use special snow vehicle to reach windswept Morfee Mountain microwave station in Prince George-to-Dawson Creek toll system.





Several new coin telephone station designs were installed during 1967. Thunderbird carving tops Victoria booth, top left, which was 800,000th telephone in the Company's system. Old English style, bottom left, fits decor in restaurant lobby, and Chinese pagoda design, below, is one of three adding to attractions of Vancouver's Chinatown.



Customer services come in many packages. Top right, new automated microfilm library system in revenue accounting permits faster, more efficient handling of customer toll queries. Top left, clear picture of quotations from Vancouver Stock Exchange board is being carried by closed-circuit television to growing number of brokerage houses. Below, directory information operators provide swift service through new switchboard positions.



OUR FUTURE

The high rate of growth in British Columbia's population and the steady industrial and commercial expansion expected in the year ahead will continue to have a significant impact on the requirements for communications services throughout the province. Our Company accepts its responsibility to meet this communications challenge in an orderly and economic fashion which will help to further the sound development and growth of British Columbia.

To that end, the 1968 construction program for the Company and its subsidiary will total \$70,000,000, of which \$54,000,000 will go into facilities for growth. The balance is required for service improvement and for the replacement of existing installations. Emphasis will continue on the prudent application of these funds to assure the most efficient and effective use possible of every dollar invested.

Our expansion and operations programs are designed not only to meet our customer service requirements in the most efficient way possible, but also to maintain an adequate level of earnings. Such earnings strengthen our ability to provide high-quality services at the lowest possible cost to our customers.

We expect a steady rate of increase in long distance traffic during 1968 and \$17,000,000 of our construction budget for the year will be applied to expansion of toll facilities. Included in this work will be the start of construction on a northern interprovincial microwave radio transmission system which, when completed in 1970, will provide additional capacity and flexibility for trans-Canada and certain British Columbia traffic.

Continued vigorous demand for local telephone service is anticipated for 1968, and the expansion and improvement program to meet these requirements will take \$30,000,000 of our construction expenditure. The balance will be spent on customer equipment and connections and on general equipment necessary to our operation.

Installation of a major new computer system, scheduled to be completed during 1968, will bring quicker measurement and analysis of results and information, thus strengthening our planning.

The close co-operation between our Company and the Okanagan Telephone Company in the fields of

planning, accounting and use of specialized services and equipment will continue as a means of effecting economies which benefit both companies and their customers.

Growth continues in the Okanagan Company's service territory and plans for 1968 include a construction program totalling more than \$3,000,000.

Our Company is keenly interested and active in the development of facilities for national communications and in this regard will continue to play a full role as a strong, independent voice. Included in these efforts is our participation with members of the Trans-Canada Telephone System and other common carriers in the planning for construction of a Canadian-owned multi-purpose domestic communications satellite system.

A proposal for such a satellite system, to be integrated with the country's existing telecommunications network, was submitted to Federal Government authorities in Ottawa during 1967. The system proposed would involve construction and equipping of 54 earth stations in Canada, the purchase of three communications satellites and the launching of two of these into stationary orbit.

Developments in this proposal are contingent upon the approval of governmental authorities, whose decision is expected during 1968.

DIRECTORS ELECTED

Richard B. Wilson of Victoria and Victor F. MacLean of Vancouver, both British Columbians by birth, were elected to the Board of Directors March 29, 1967.

Mr. MacLean is President of Kelly, Douglas & Company Limited, Nabob Holdings, Ltd., Super-Valu Stores (B.C.) Ltd., Dickson Importing Co. Ltd. and Murray Jam Ltd. Mr. Wilson, mayor of Victoria from 1962 through 1965, is the Chancellor of the University of Victoria and a director of The Canada Trust Company and Home Oil Distributors Ltd.

They were elected to succeed Col. The Hon. Clarence Wallace, C.B.E., and Gilbert A. Kennedy, who retired.

Our thanks for their years of devoted service go to Col. Wallace, who was a director for 15 years, and to Mr. Kennedy, a long-time employee and officer who served as a director for 11 years.

Continuing development in British Columbia is reflected in such projects as those shown here. Above, workmen are active in construction of a \$100-million addition to MacMillan Bloedel pulp and paper installations at Powell River. Below, Endako Mines Ltd. open-pit operation west of Prince George is Canada's largest molybdenum mine with capacity enlarged during 1967 to 25,000 tons daily.



OUR MARKET PLACE

Our commercial, installation and marketing employees continued to devote strong attention to marketing and sales programs designed to identify and supply the communications requirements of both business and residential customers.

In the field of business communications, substantial growth was achieved with such service offerings as the direct in-dialing to customer private branch exchanges or Centrex, closed-circuit television, data transmission and radiotelephones. During the year, the largest single industrial closed-circuit television installation in the province was completed in a new pulp mill. Teletypewriter exchange service, or TWX, tied in with computers through telephone lines, found new applications in a variety of businesses and industries.

Record growth was achieved in sales of residence extension telephones, due largely to a system-wide residential sales program begun during the latter part of the year and planned as a continuing sales promotion.

This program, supported by advertising and other promotional steps and involving all of our employees who have customer contact, is designed to acquaint customers with the convenience and economy of extension telephones and other services. The careful planning which went into this sales program, including special employee training, brought immediate results. Sales objectives for 1967 were exceeded when a record net gain of over 12,000 residential

extensions was achieved and the outlook for 1968 is highly promising.

Our sales efforts to encourage use of both basic and discretionary telephone services and our constant search for and the application of new and more efficient ways to provide these services are designed to maintain our strong financial position. This in turn enables us to meet all of our obligations to customers, shareholders and employees and to provide total communications services at reasonable cost.

NEW OFFICERS

Officers of the Company include several new faces following retirement of two vice-presidents.

E. T. Squire, Vice-President—Marketing from January 1, 1959, retired August 31, 1967, after 46 years of service, and H. F. Urquhart, Vice-President—Operations from September 1, 1963, retired September 30, 1967, after 42 years with the Company.

D. C. Watt, formerly Vice-President—Staff (Operations) became Vice-President—Marketing.

G. F. MacFarlane, previously Chief Engineer and Director of Plant Services, was appointed Vice-President—Operations.

T. F. Heenan, recently Chairman of the Advisory Committee of the Trans-Canada Telephone System, became Vice-President—Staff (Operations).

D. B. McNeil, a Vancouver chartered accountant with a long association with the Company, was appointed Comptroller.

Extension telephone promotion included "Teen Fair" stage presentation to illustrate beauty of Starlite telephones in full range of colors.



OUR FINANCIAL RECORD

The earnings results achieved in 1967 in the face of a levelling off in the rate of growth of toll service revenues reflect in a large measure our continuing close supervision of expenses.

During the year we increased our interest in Okanagan Telephone Company to over 99.6% of the common shares, and consequently the operating results of the Okanagan Telephone Company are consolidated in the accompanying financial statements for 1967, and 1966 results have been restated to make them comparable.

Operating revenues showed a satisfactory gain of 9%, reaching a total of \$126,827,916. Revenues from toll services increased by 8%, compared with a gain of 16% in the previous year, reflecting a moderation of the rate of growth in the economy of our service area. Local service revenues were up 9% as compared with an increase of 10% in 1966.

Operating expenses, excluding income taxes, totalled \$85,725,496. These were up 10% over 1966, compared with an increase of 16% last year. Income taxes of \$13,489,410 were slightly below 1966 income taxes of \$13,765,423.

Earnings available for interest and other fixed charges totalled \$28,534,854, representing a consolidated return of 6.63% on average capital employed, compared with 6.61% in 1966.

Interest and amortization provisions totalled \$13,200,820; while dividends on preference and preferred shares were unchanged at \$3,691,000, leaving income available for ordinary shares of \$11,617,610,

or \$4.49 per average ordinary share, compared with \$4.30 in 1966.

Effective with the second quarter, the ordinary dividend rate was increased to the annual rate of \$2.60, which resulted in total ordinary dividends of \$6,602,715, or \$2.55 per share, compared with \$2.40 in 1966. The remaining \$5,014,895 was retained in the business for growth and development.

In the face of rising cost trends in wages, maintenance materials and services, the increase in operating expenses, excluding depreciation, was held to 9% for the year. Depreciation, which is still the largest single item of expense, increased 12%, compared with 7.5% in 1966. The composite depreciation rate changed slightly from 5.32% to 5.31%, and the large increase in depreciation expense reflects the substantial additions to plant in service during the year.

The Company returned in 1967 to the practice of claiming maximum capital cost allowance permitted under the Income Tax Act. This became possible with the rescinding by the Federal Government of a 1958 Order-in-Council which did not permit deferred income taxes to be considered an expense for rate-making purposes. While the Order-in-Council was in effect, for tax purposes the Company claimed capital cost allowance equal to the actual book depreciation. Income taxes deferred in 1967 totalled \$8,441,982.

Over half of the record-breaking \$68,430,995 expenditure on new and improved facilities during 1967 was financed from internal sources. The remainder was financed by means of a 24-year \$30,000,000 issue of 6¾% First Mortgage Bonds, which was sold suc-

cessfully in March. In a market that has been very unsteady these bonds were sold to yield the purchaser 6.42%, a more favorable rate to the Company than the previous issue which yielded the purchaser 6.88%.

Late in 1966 a trend toward a reduced rate of increase in our long distance revenues along with other economic warning signs resulted in carefully planned reductions in our 1967 construction program. This emphasized our determination to contribute in a real way towards the control of inflation. Our efforts in this connection applied not only to our capital program but also to all activities of the Company. Plans for 1968 have been made with this same approach.

Our results in 1967 have been possible in very large

part because of the continued loyalty and high standards of performance by our more than 7,500 employees. Our men and women continue to be our most valuable asset. Their efforts, together with the continued support and confidence of our investors, enabled us to make the substantial achievements of the year just past.

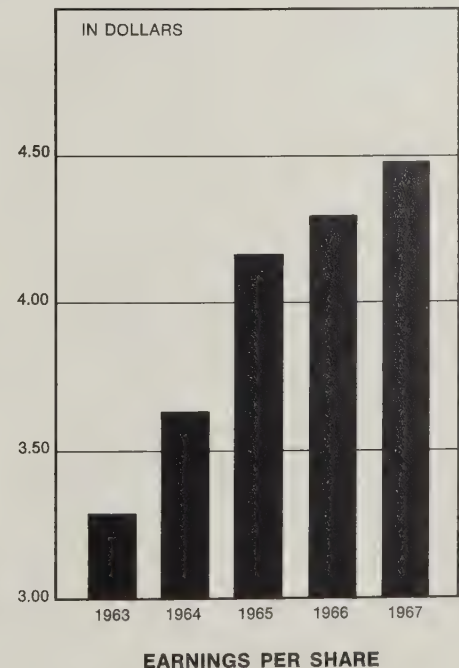
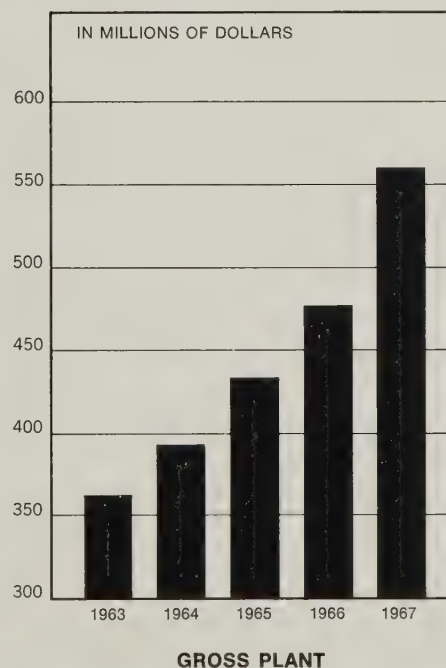
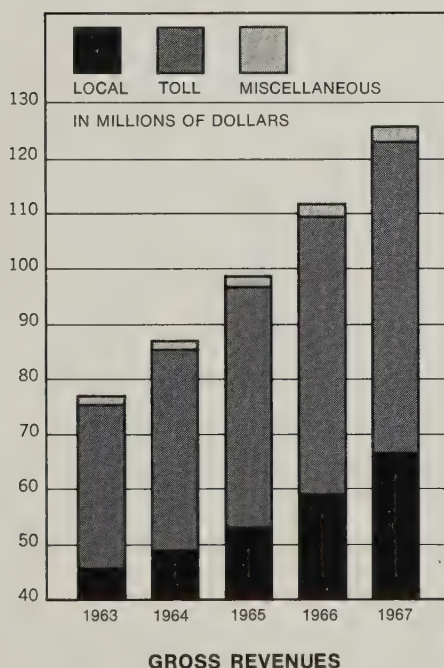
All of this is appreciated by your Directors, who look forward to continued solid growth in the year ahead.

For the Board of Directors,



President

February 15, 1968



BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED BALANCE SHEET*As at December 31, 1967 and 1966***ASSETS**

	1967	1966
TELEPHONE PLANT, at cost.....	\$559,922,422	\$506,804,746
Less—Accumulated depreciation.....	116,035,400	102,214,508
	443,887,022	404,590,238
NON-CURRENT ASSETS, at cost		
Corporation special refundable taxes.....	1,432,517	1,232,075
Other.....	713,616	287,276
	2,146,133	1,519,351
CURRENT ASSETS		
Cash.....	515,154	1,587,025
Short-term investments, at cost.....	200,000	230,000
Accounts receivable.....	15,634,264	14,884,001
Material and supplies, at cost.....	8,044,029	7,908,837
Prepayments.....	1,275,369	1,114,818
	25,668,816	25,724,681
DEFERRED CHARGES		
Unamortized discount, premium and expense on long-term debt, net.....	4,889,371	4,549,277
Other.....	2,231,616	4,487,014
	7,120,987	9,036,291
Approved for Board of Directors,		
C. H. McLEAN, <i>Director</i>		
J. E. RICHARDSON, <i>Director</i>	\$478,822,958	\$440,870,561

LIABILITIES

	1967	1966
SHAREHOLDERS' EQUITY		
Authorized share capital \$250,000,000		
Ordinary shares of par value \$25 each (2,589,300 shares outstanding at December 31, 1967).....	\$ 64,732,500	\$ 64,732,500
Premium on ordinary shares.....	32,471,640	32,471,640
Earnings retained for use in the business.....	27,479,857	22,464,962
	124,683,997	119,669,102
Preference and preferred shares (Note 2).....	73,500,000	73,500,000
Total Shareholders' Equity.....	198,183,997	193,169,102
MINORITY INTEREST		
Preferred shares (\$450,000) and other interest in subsidiary.....	473,115	591,600
LONG-TERM DEBT (Note 5).....	224,873,500	195,678,500
BANK DEMAND NOTES (Note 3).....	14,500,000	18,300,000
CURRENT LIABILITIES		
Accounts payable.....	9,577,976	8,943,035
Income taxes payable.....	2,071,153	5,188,196
Dividends payable.....	2,605,795	2,476,330
Bond and note interest accrued.....	3,419,359	3,051,477
Other accrued liabilities.....	961,334	649,017
Unearned rentals and prepayments for service.....	2,774,101	2,462,658
Instalments on subsidiary's long-term debt due within one year.....	639,000	59,000
	22,048,718	22,829,713
INCOME TAXES DEFERRED (Note 4).....	18,743,628	10,301,646
CONSTRUCTION PROGRAM (Note 3)		
	\$478,822,958	\$440,870,561

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF INCOME*For the years ended December 31, 1967 and 1966*

	1967	1966
OPERATING REVENUES		
Local service.....	\$ 67,410,124	\$ 61,803,453
Toll service.....	56,552,044	52,162,629
Miscellaneous.....	3,813,618	3,385,020
Less—Uncollectible operating revenues.....	947,870	810,731
Total Operating Revenues.....	126,827,916	116,540,371
OPERATING EXPENSES		
Maintenance.....	24,548,164	22,894,684
Traffic.....	9,989,279	9,173,745
Commercial.....	7,010,352	6,228,798
General and administrative (Note 6).....	12,864,621	11,994,950
Provincial, municipal and other taxes.....	4,862,896	4,086,789
Depreciation (Note 7).....	26,450,184	23,648,629
Total Operating Expenses.....	85,725,496	78,027,595
NET OPERATING INCOME BEFORE INCOME TAXES	41,102,420	38,512,776
Other income.....	921,844	460,114
	42,024,264	38,972,890
INTEREST AND OTHER DEDUCTIONS		
Interest on long-term debt.....	12,013,990	8,863,069
Other interest.....	910,659	724,056
Amortization of discount, premium and expense on long-term debt, net.....	276,171	217,546
	13,200,820	9,804,671
NET INCOME BEFORE INCOME TAXES	28,823,444	29,168,219
Income taxes.....	13,489,410	13,765,423
Minority interest.....	25,424	567,478
NET INCOME	15,308,610	14,835,318
DIVIDENDS (Note 8)		
Preference and preferred shares.....	3,691,000	3,691,000
Ordinary shares.....	6,602,715	6,214,320
	10,293,715	9,905,320
NET INCOME AFTER DIVIDENDS		
Transferred to retained earnings.....	\$ 5,014,895	\$ 4,929,998

BRITISH COLUMBIA TELEPHONE COMPANY

**CONSOLIDATED STATEMENT OF EARNINGS
RETAINED FOR USE IN THE BUSINESS***For the years ended December 31, 1967 and 1966*

	1967	1966
BALANCE AT BEGINNING OF YEAR.....	\$ 22,464,962	\$ 17,535,614
Net income after dividends.....	5,014,895	4,929,998
	27,479,857	22,465,612
Share issue expenses.....	—	650
BALANCE AT END OF YEAR.....	\$ 27,479,857	\$ 22,464,962

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS*For the years ended December 31, 1967 and 1966*

	1967	1966
CASH AND SHORT-TERM INVESTMENTS, beginning of year.....	\$ 1,817,025	\$ 2,770,814
SOURCE OF FUNDS		
Net income for the year.....	15,308,610	14,835,318
Add—Non-cash charges to income for depreciation, income taxes and amortization.....	35,557,817	24,022,503
	50,866,427	38,857,821
Financing proceeds		
Long-term debt.....	29,375,165	29,002,681
Net increase (decrease) in bank demand notes.....	(3,800,000)	18,300,000
	76,441,592	86,160,502
APPLICATION OF FUNDS		
Gross plant additions.....	68,430,995	60,681,708
Less—Salvage value of plant retired.....	2,439,692	1,096,972
	65,991,303	59,584,736
Investment in subsidiary.....	263,630	12,751,190
Dividends.....	10,293,715	9,905,320
Sinking fund requirements by subsidiary.....	796,430	—
Increase in non-current assets.....	626,782	909,730
Increase (decrease) in other deferred charges.....	(2,255,398)	2,218,281
Increase in working capital, excluding cash and short-term investments.....	1,827,001	1,745,034
	77,543,463	87,114,291
CASH AND SHORT-TERM INVESTMENTS, end of year.....	\$ 715,154	\$ 1,817,025

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 PRINCIPLES OF CONSOLIDATION

The Company owns 99.6% of the common shares of Okanagan Telephone Company, 97.6% of such shares having been acquired in December, 1966. The 1967 consolidated financial statements incorporate this subsidiary company's accounts and, for comparative purposes, restate the 1966 statement of income to include the operating results of both companies.

NOTE 2 PREFERENCE AND PREFERRED SHARES OUTSTANDING

Par Value of \$100 each	Redemption Premium	1967	1966
6% Cumulative preference shares.....	10%	\$ 1,000,000	\$ 1,000,000
6% Cumulative preferred shares.....	5%	4,500,000	4,500,000
4¾ % Cumulative redeemable preferred shares.....	5%	7,500,000	7,500,000
4¾ % Cumulative redeemable preferred shares (Series 1956).....	4%	7,500,000	7,500,000
4½ % Cumulative redeemable preferred shares.....	4%	5,000,000	5,000,000
4¾ % Cumulative redeemable preferred shares.....	4%	6,000,000	6,000,000
5¾ % Cumulative redeemable preferred shares.....	4%	10,000,000	10,000,000
5.15% Cumulative redeemable preferred shares.....	5%	12,000,000	12,000,000
Par Value of \$25 each			
4.84% Cumulative redeemable preferred shares.....	4%	20,000,000	20,000,000
		<u>\$73,500,000</u>	<u>\$73,500,000</u>

NOTE 3 CONSTRUCTION PROGRAM

The Company and its subsidiary have announced construction programs for additional telephone plant and facilities in 1968 which are estimated to cost \$70,000,000, and substantial purchase commitments have been made in connection therewith. The companies finance their construction programs by cash available from operations, to the extent of approximately \$45,000,000, and the balance by temporary bank loans pending permanent public financing.

NOTE 4 INCOME TAXES DEFERRED

In the fiscal years 1954 to 1957 inclusive, the Company deferred payment of a portion of its provisions for income taxes by claiming capital cost allowances in excess of depreciation provided for such years. This practice was discontinued in 1958, following the passing of a Federal Order-in-Council requiring the Board of Transport Commissioners for Canada to recognize only income taxes actually paid in determining the Company's rates and charges. This Order-in-Council was rescinded in February, 1967.

The Company has resumed the practice of deferring a portion of its income taxes otherwise payable, and the combined 1967 tax provision by the companies includes \$8,441,982 so deferred. A further \$442,102 has been deferred for 1966 in conformity with amendments to the Income Tax Act made effective for that year.

Income taxes deferred, \$18,743,628 as shown on the consolidated balance sheet, is an accumulation of taxes for payment in future periods when capital cost allowances may be less than depreciation recorded in the companies' accounts.

NOTE 5 LONG TERM DEBT

British Columbia Telephone Company	1967	1966
First Mortgage Bonds (1)		
Series A 3¾ % due March 1, 1971.....	\$ 16,500,000	\$ 16,500,000
Series B 3⅛ % due March 1, 1971.....	3,000,000	3,000,000
Series C 3¾ % due March 1, 1971.....	8,000,000	8,000,000
Series D 4½ % due March 1, 1971.....	8,000,000	8,000,000
Series E 4¾ % due October 1, 1975.....	7,000,000	7,000,000
Series F 5 % due April 1, 1982.....	25,000,000	25,000,000
Series G 5¼ % due November 1, 1983.....	20,000,000	20,000,000
Series H 6 % due September 15, 1984.....	15,000,000	15,000,000
Series I 5¾ % due August 1, 1985.....	15,000,000	15,000,000
Series J 5¾ % due July 15, 1986.....	20,000,000	20,000,000
Series K 5⅝ % due April 15, 1988.....	20,000,000	20,000,000
Series L 6¾ % due October 15, 1989.....	30,000,000	30,000,000
Series M 6⅜ % due March 15, 1991.....	30,000,000	—
	217,500,000	187,500,000
Okanagan Telephone Company		
First Mortgage Sinking Fund Bonds		
Series A 4 % due February 1, 1968.....	458,500	466,500
Series B 4 % due February 1, 1968.....	99,500	106,500
Series C 5¼ % due July 1, 1970.....	500,500	512,500
General Mortgage Sinking Fund Bonds		
Series A 5 % due July 1, 1971.....	377,000	398,000
Series B 5 % due July 1, 1975.....	418,000	424,500
Series C 6 % due July 1, 1977.....	352,000	363,000
Series D 5¾ % due July 1, 1978.....	678,000	686,000
Series E 6½ % due December 1, 1979.....	491,500	495,500
Series F 6½ % due July 1, 1980.....	965,500	972,000
Series G 5¾ % due July 1, 1984.....	1,593,000	1,649,000
Series H 6¼ % due July 1, 1986.....	2,250,000	2,250,000
	8,183,500	8,323,500
Less—Sinking fund payments and current maturities due within one year.....	810,000	145,000
	7,373,500	8,178,500
	<u>\$224,873,500</u>	<u>\$195,678,500</u>

(1.) An annual sinking fund payment of 1% of the principal amount of the First Mortgage Bonds outstanding is required by the terms of the Deed of Trust and Mortgage securing these bonds. Each year the Company has recovered such payments by exercising its option to be repaid monies deposited in the sinking fund up to 66⅔ % of its investment in additional property as provided for by the terms of the aforementioned Deed. The First Mortgage Bonds are callable at a premium which varies for each issue and reduces periodically over the life of the issue.

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSE

	1967	1966
Accounting.....	\$ 3,859,699	\$ 3,502,843
Engineering.....	2,584,448	2,456,236
Executive and staff.....	1,696,031	1,540,205
Directors' remuneration as director or officer.....	105,942	101,000
Stationery, rents, insurance and other.....	3,351,159	3,058,761
Less—Charged to construction.....	1,790,910	1,344,557
Relief and pensions, after capitalization of \$1,078,120 in 1967.....	3,058,252	2,680,462
	<u>\$12,864,621</u>	<u>\$11,994,950</u>

The Company has a pension plan maintained without cost to its employees, and under which employees, upon retirement, receive a monthly pension if conditions related to age and period of service have been met. The Company policy is to accrue and fund the annual pension entitlement of all employees for current service and also provide \$1,385,000 per annum to amortize past service cost, together with interest thereon, over a period of 25 years from January 1, 1965. The estimated unfunded liability for past service cost, based on the most recent actuarial report, is \$20,419,000 at December 31, 1967.

The Okanagan Telephone Company pension plan is contributed to by its employees, and the company has provided for all current service costs; there is no liability for past service cost.

NOTE 7 DEPRECIATION

Depreciation rates are determined by a continuing program of engineering studies for each class of telephone plant in service, and depreciation provisions are calculated by applying such rates to the Company's investment therein each month. This procedure yielded a composite rate of 5.31% for the 1967 fiscal year (5.32% in 1966).

Depreciation for Okanagan Telephone Company is computed in conformity with requirements of the Public Utilities Commission of British Columbia whereby approved depreciation rates for each class of plant are applied to the Company's investment in such plant at the beginning of the year. This procedure yielded a composite rate of 4.16% for the 1967 fiscal year (4.12% in 1966).

NOTE 8 DIVIDENDS ON PREFERENCE, PREFERRED AND ORDINARY SHARES

	1967	1966
6% Cumulative preference shares.....	\$ 60,000	\$ 60,000
6% Cumulative preferred shares.....	270,000	270,000
4¾ % Cumulative redeemable preferred shares.....	356,250	356,250
4¾ % Cumulative redeemable preferred shares (Series 1956).....	356,250	356,250
4½ % Cumulative redeemable preferred shares.....	225,000	225,000
4¾ % Cumulative redeemable preferred shares.....	262,500	262,500
5¾ % Cumulative redeemable preferred shares.....	575,000	575,000
5.15% Cumulative redeemable preferred shares.....	618,000	618,000
4.84% Cumulative redeemable preferred shares.....	968,000	968,000
	<u>3,691,000</u>	<u>3,691,000</u>
Ordinary shares.....	6,602,715	6,214,320
	<u>\$10,293,715</u>	<u>\$ 9,905,320</u>

AUDITORS' REPORT

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

505 BURRARD STREET
VANCOUVER 1, B. C.

To The Shareholders,
British Columbia Telephone Company.

We have examined the consolidated balance sheet of British Columbia Telephone Company and its subsidiary, Okanagan Telephone Company as at December 31, 1967 and the consolidated statements of income, earnings retained for use in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell Stead Graham & Hutchison

January 29, 1968.

TEN-YEAR RECORD OF PROGRESS

PARTICULARS	1967	1966	1965
SELECTED INCOME ACCOUNT ITEMS			
1 Total operating revenues.....	\$126,827,916	\$112,526,763	\$ 99,700,5
2 Local service.....	67,410,124	59,278,966	53,906,0
3 Toll service.....	56,552,044	50,746,437	43,561,0
4 Operating expenses.....	54,412,416	48,559,759	40,593,5
5 Salaries and wages.....	36,422,994	32,472,398	26,339,2
6 Other operations expense.....	17,989,422	16,087,361	14,254,2
7 Provincial, municipal and other taxes.....	4,862,896	3,934,403	3,217,7
8 Depreciation.....	26,450,184	22,944,866	21,345,1
9 Interest and other deductions.....	13,200,820	9,349,708	8,431,3
10 Income taxes.....	13,489,410	13,361,423	12,513,2
11 Net income available for dividends.....	15,308,610	14,835,318	13,704,1
12 Dividends on preference and preferred shares.....	3,691,000	3,691,000	3,824,0
13 Dividends on ordinary shares.....	\$ 6,602,715	\$ 6,214,320	\$ 5,696,4
SELECTED BALANCE SHEET ITEMS			
14 Investment in telephone plant.....	\$559,922,422	\$480,762,018	\$429,966,9
15 Accumulated depreciation.....	116,035,400	97,663,919	83,072,0
16 Long term debt.....	225,512,500	187,500,000	157,500,0
17 Bank demand notes.....	14,500,000	18,300,000	—
18 Minority interest.....	473,115	—	—
19 Preference and preferred shares.....	73,500,000	73,500,000	73,500,0
20 Ordinary shares, premium and retained earnings.....	124,683,997	119,669,102	114,739,7
21 Total invested capital.....	\$438,669,612	\$398,969,102	\$345,739,7
SELECTED STATISTICS			
22 Telephones in service.....	855,657	761,129	709,5
23 Percent dial.....	99.0%	98.7%	98.6
24 Percent D.D.D.....	76.1%	72.2%	72.7
25 Net plant investment per telephone.....	\$ 519	\$ 503	\$ 4
26 Central offices—dial.....	245	205	1
27 Central offices—manual.....	10	16	—
28 Miles of wire.....	3,250,007	2,942,671	2,692,9
29 Percent in cable.....	97.7%	97.7%	97.5
30 Gross plant additions.....	\$ 68,430,995	\$ 60,681,708	\$ 47,983,7
31 Average daily local calls.....	5,308,958	4,894,027	4,483,7
32 Average daily toll messages.....	112,033	97,599	87,4
33 Total salaries and wages.....	\$ 48,197,230	\$ 42,004,499	\$ 35,568,2
34 Number of employees.....	7,554	7,243	6,3
35 Number of shareholders.....	21,800	22,498	23,0

The above record includes, in 1967, the related statistics of Okanagan Telephone Company, which has been operated as a subsidiary of the Company from January 1, 1967.

BRITISH COLUMBIA TELEPHONE COMPANY

1964	1963	1962	1961	1960	1959	1958
474,632	\$ 77,391,529	\$ 71,635,207	\$ 67,372,042	\$ 58,842,714	\$ 54,867,182	\$ 44,876,593
291,594	45,821,729	43,578,500	40,826,116	37,217,693	35,152,890	28,098,477
987,120	29,674,041	26,524,167	23,685,017	18,970,192	17,322,785	14,678,462
715,544	31,296,856	30,287,751	29,739,149	27,915,978	27,598,491	26,718,975
044,552	20,864,962	20,019,044	19,442,686	18,365,832	18,509,394	18,515,691
670,992	10,431,894	10,268,707	10,296,463	9,550,146	9,089,097	8,203,284
334,955	2,568,140	2,324,557	2,326,740	1,988,057	1,492,625	1,292,851
534,784	15,648,843	13,926,474	11,633,769	9,669,597	8,678,074	7,099,564
026,309	7,322,198	7,382,101	6,988,165	5,921,990	4,971,746	3,908,506
664,107	10,057,911	8,682,720	8,268,301	6,658,463	6,019,134	2,857,776
928,655	10,928,238	9,483,186	8,792,903	7,245,647	6,672,300	4,173,071
473,000	3,318,500	2,855,000	2,855,000	2,667,500	2,105,000	2,105,000
523,840	\$ 5,293,680	\$ 4,430,580	\$ 4,068,900	\$ 3,458,400	\$ 3,075,000	\$ 2,400,000
360,679	\$362,955,276	\$335,865,487	\$308,366,305	\$265,129,882	\$243,690,783	\$217,951,682
619,268	57,782,084	48,225,374	41,238,185	34,896,273	33,412,726	33,996,533
500,000	137,500,000	137,500,000	140,393,000	120,551,000	105,693,000	90,861,000
500,000	6,500,000	5,000,000	—	6,500,000	8,500,000	8,000,000
—	—	—	—	—	—	—
500,000	65,500,000	53,500,000	53,500,000	53,500,000	41,500,000	41,500,000
505,057	92,573,242	90,636,977	73,921,407	62,039,202	55,505,989	43,848,115
005,057	\$302,073,242	\$286,636,977	\$267,814,407	\$242,590,202	\$211,198,989	\$184,209,115
661,708	625,103	594,292	568,022	522,780	505,432	480,707
98.3%	97.7%	96.9%	90.4%	87.4%	79.4%	71.4%
70.1%	68.4%	67.3%	54.1%	—	—	—
489	\$ 488	\$ 484	\$ 470	\$ 440	\$ 416	\$ 383
183	159	140	106	78	63	54
19	26	37	59	55	65	71
427,131	2,273,990	2,172,023	2,090,825	1,864,691	1,760,014	1,414,934
97.1%	96.9%	96.6%	96.5%	95.9%	95.9%	95.0%
272,387	\$ 35,891,660	\$ 37,545,012	\$ 30,801,282	\$ 35,631,704	\$ 40,947,467	\$ 51,748,654
200,799	3,896,393	3,735,403	3,565,308	3,246,610	3,129,904	2,929,155
72,442	65,725	63,274	56,828	50,706	48,273	47,362
785,133	\$ 27,875,720	\$ 27,011,666	\$ 25,828,367	\$ 24,842,661	\$ 25,219,406	\$ 24,742,215
5,696	5,423	5,330	5,511	5,646	6,205	6,878
23,609	24,722	23,993	23,788	23,461	20,458	20,500



Employee first aid teams won zone championships and fared well in provincial competitions.

B.C. Tel Choir, with 70 employee voices, performed for audiences in communities throughout the province.



OUR PEOPLE

Our B.C. Tel family numbered 7,182 men and women at the end of 1967. Together with the 372 men and women of the Okanagan Telephone Company, they represent one of the five largest groups of employees in British Columbia.

They are to be commended most heartily for their many accomplishments and for their individual contributions during 1967, not only to the progress of the Company, but also to the many community endeavours in which they are so active throughout the province.

They established records once again in blood donor participation. They showed generous financial support for community service groups, as reflected in the record pledges to telephone employees' community funds in Greater Vancouver, Greater Victoria, Prince George and the Kamloops region.

The interest they have in community affairs and the important role they play in voluntary service organizations of all kinds throughout the province are evident from the election of several employees to civic office and from the fact that four telephone people were General Campaign Chairmen of major United Appeal Funds in 1967.



New Westminster PBX foreman Don MacNaughton, at stern, helped mark Canada's Centennial with Eastward Ho canoe trip from west coast to Expo 67 in Montreal.

At Expo 67, B.C. Tel employees Arlene Templier, left, and Michele Dewinter represented Company as hostesses at the Telephone Pavilion, seen in background with crowds waiting to get in.



DIRECTORS

HARRY M. BOYCE

Chairman

Yorkshire Financial Corporation Limited
Vancouver, B.C.

FRED B. BROWN

Chairman

Straits Towing Limited
Vancouver, B.C.

JAMES J. CLERKIN, Jr.

Executive Vice-President—Telephone Operations

General Telephone & Electronics Corporation
New York, N.Y.

THEODORE S. GARY

Vice-Chairman

General Telephone & Electronics Corporation
New York, N.Y.

VICTOR F. MacLEAN

President

Kelly, Douglas & Company Limited
Vancouver, B.C.

CYRUS H. McLEAN

Chairman

British Columbia Telephone Company
Vancouver, B.C.

JOHN A. McMAHON

President

Inland Natural Gas Co. Ltd.
Vancouver, B.C.

WINFIELD S. PIPES

Retired

Formerly Executive Vice-President
British Columbia Telephone Company
Vancouver, B.C.

DONALD C. POWER

Chairman

General Telephone & Electronics Corporation
New York, N.Y.

J. ERNEST RICHARDSON

President and Chief Executive Officer

British Columbia Telephone Company
Vancouver, B.C.

RICHARD B. WILSON

The Chancellor of the

University of Victoria
Victoria, B.C.

OFFICERS

CYRUS H. McLEAN

Chairman

J. ERNEST RICHARDSON

*President and Chief
Executive Officer*

JACK C. CARLILE

Vice-President—Finance

TERENCE F. HEENAN

*Vice-President—Staff
(Operations)*

GORDON F. MacFARLANE

Vice-President—Operations

DOUGLAS C. WATT

Vice-President—Marketing

JOHN ROSS EVANS

Secretary and Treasurer

D. BARRY McNEIL

Comptroller

GEORGE WRAGG

*Assistant Secretary and
Assistant Treasurer*



